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Presidential Commission

FACT SHEET WHY PENSION REFORM IN GHANA

Synopsis
In 1950, the Pension Ordinance, popularly known as "CAP 30 Pension Scheme" was promulgated for civil servants in the then Gold Coast. In 1972, the Social Security Decree, NRCD 127 established the Social Security and National Insurance Trust (SSNIT) to administer a social security scheme for Ghana.

In effect, since 1972, the Republic of Ghana has been operating two major public pension schemes. Over the years, the disparity between the two schemes became more pronounced. Consequently, there were agitations and protests by some public sector workers on the SSNIT scheme demanding to be placed on the CAP 30 scheme which was considered more favourable, particularly the lump sum element.

In July 2004, His Excellency, President John Agyekum Kufuor, found it expedient to constitute a Presidential Commission charged with the responsibility to examine existing pension arrangements and to make appropriate recommendations for a sustainable pension scheme(s) that would ensure retirement income security for Ghanaian workers, with special reference to the public sector.

The Commission submitted its Final Report in March 2006
The Government accepted almost all the recommendations of the Commission. A government White Paper was issued in July 2006
The main recommendation of the Commission is the creation of a new contributory three-tier pension system for Ghana to replace existing parallel pension schemes.

A Pension Reform Implementation Committee has subsequently been set up to implement the approved recommendations of the Commission. The Committee will undertake, inter alia, the following activities:

- Facilitate the drafting of a new Pension Reform Bill that will give legal backing to all the recommendations requiring the passage of laws.
- Provide guidance and direction on transitional matters, in both the public and private sectors that need to be resolved to ensure the smooth take-off of the new pension scheme. This will include restructuring of Social Security and National Insurance Trust (SSNIT) and a review of the SSNIT Law.
- Establish the administrative structures of a Pensions Regulatory Body which will prepare the Legislative Instrument for the operation of the new Pension Reform Law.
- Provide information and education program on the new Pension Reform Law.

The Government has also tasked the Implementation Committee to undertake a comprehensive study to facilitate the setting-up of social insurance scheme(s) for the Informal Sector.

FACT SHEET
WHY THE NEW CONTRIBUTORY 3-TIER PENSION SYSTEM FOR GHANA"

Adequacy and Fairness of Existing Pension Benefits

- The major issue in the submissions and memoranda received from organized labour, pensioners and public servants was the inadequacy of pensions and gratuities; in particular the cash lump-sum paid under the SSNIT Scheme. This constituted a major source of grievance for public sector employees and pensioners.

Income Replacement Ratio

- Adequacy is normally measured as the ratio of an employee’s retirement income to the level of his or her earnings just prior to retirement.

- The resultant "net income replacement ratio" is seldom 100%. This is because it is expected that income needs in retirement are usually lower than when one is in regular employment, as expenses incurred on commuting to work, cost of meals away from home and on office attire are normally excluded.

View Links:
- Chieftaincy Act, 1971
- Ghana Investment Promotion
- Human Trafficking
- Local Government Act
- Minerals And Mining
- Narcotic Drugs
- National Building Regulations
- National Identification Act, 2006
- National Labour Commission Regulations, 2006
- Pndc Law
- Presidential Commission
- Trade Policy
- W/ African Gas Pipeline Act, 2004

- The global standard for income replacement ratio is about 67%.

The Ghanaian Social-Cultural and Economic Situation
The Commission took cognizance of the fact that in the Ghanaian circumstance, the needs of the individual rather enlarges on retirement as a result of the demands of our traditional norms and customs, i.e. family engagements, family leadership and other social responsibilities.

Additionally, in the absence of well-structured socio-economic systems, individuals on retirement needed a certain quantum of money to provide benefits which ordinarily should have been acquired during their working life, e.g. houses, vehicles, health insurance, etc. The Commission admits that the peculiarities of our socio-cultural environmental demands make it necessary for the income replacement ratio to remain at a level which enables the retiree to meet the additional social responsibilities and concluded that any pension scheme for Ghana which ignores this social factor will fall short of pensioners' expectations.

An income replacement ratio above 67% was therefore recommended for the Ghanaian circumstance. Following the Commission's in-depth analysis of the key issues and socio-cultural environment, it was concluded that existing pension schemes will not deliver benefits that will allow for adequate and sustainable income security. To improve benefits and ensure retirement income security for Ghanaian workers, the Commission proposed a three-tier pension structure, comprising two mandatory schemes and a voluntary scheme.

FACT SHEET 3 THE NEW CONTRIBUTORY 3-TIER PENSION SYSTEM FOR GHANA
The New Three-Tier Pension System For Ghana
A contributory three-tier pension system, comprising two mandatory schemes and a voluntary scheme, as follows:

- A mandatory basic state pension
- A mandatory Defined Contribution(DC) Occupational (work- based and privately-managed) pension; and
- A voluntary Personal Pension/Provident Fund

First Tier

- A mandatory Basic State Social Security scheme to be administered by a restructured SSNIT, which will pay only periodic monthly and other pension benefits (such as survivors and invalidity benefits).
- It will be a defined benefit scheme, benefiting from a portion of contributions paid to SSNIT by both the employee (5%) and the employer (12.5%).
- Under the new Scheme, SSNIT will no longer pay the 25% gratuity lump-sum.

Second Tier

- A mandatory, privately-managed occupational pension scheme.
- It will be a defined contribution pension scheme, paying mainly lumpsum benefits with a flexibility that allows the contributor to purchase additional annuities to enhance monthly pension benefits.
- The legislated contribution will be 5 %.
- Out of the legislated contribution, 4% will be hived off SSNIT, while the remaining 1% will be contributed by the employer and the employee in equal proportions.

Third Tier

- A voluntary, private pension scheme, to be operated in line with the provisions of the Long-Term Savings Act (LTSA), 2004 (Act 679) which, inter alia, offers attractive tax incentives.
- For example, existing Provident Funds and similar schemes which may want to take advantage of the third-tier would have to modify their rules to comply with the provisions of the LTSA.

New Contribution Rates
Employer = 13% (12.5 +0.5%)
Employee = 5.5% (5% + 0.5%)

Distribution

- SSNIT - Mandatory 1st tier: 13.5% (2.5% NHIS Levy; ll% for pensions)
- Private Occupational DC - Mandatory 2nd tier: 5%

Advantages of the New Three-Tier Pension Structure include the following:

- It will pay improved pension benefits, compared to the current levels of Benefits under existing pension schemes.
- Workers will have better control over their pension benefits under the Second tier scheme, which is to be privately-managed.
- The second tier will be more flexible in meeting the different needs of employees. Under it, contributors may have access to some funds for specific needs prior to retirement such as housing.
- It is also portable.

Any Disadvantages

- Defined Contribution systems (2nd and 3rd- tiers) succeed when investment returns are adequate. Therefore there is the need to look at:
  how funds are managed, - the conditions under which investment policies
  are determined, as well as the supervisory and regulatory guidelines that are

put in place to safeguard these funds. The Implementation Committee will ensure there are adequate laws to protect member's interest and safeguard the stability of the new pension system.

Administration of the new Three-Tier Pension System The new three-tier pension structure will be administered as follows: First Tier

- To be administered by a restructured SSNIT, which will collect the regular monthly payroll deductions?
- SSNIT will collect 13.5% of payroll deductions, out of which 2.5% will be paid as NHIS Levy. The remaining 11% will be retained by SSNIT to be managed and invested towards the payment of monthly pensions and other benefits (such as survivors and invalidity benefits).

Second Tier

- To be privately managed and controlled by Boards of Trustees. The Boards, among other things, are expected to appoint fund managers and custodians approved and certified by the proposed Pensions Regulatory Body.
- The 5% payroll deduction to be used to fund the Second Tier occupational pension scheme will be paid into clearly identifiable funds, which will be managed and invested towards the payment of benefits.

Third Tier
The administration of the 3rd tier is similar to the 2nd tier. Management of the third-tier scheme will conform to theadministrative arrangements proposed under the Long-Term
Savings Act with some amendments.

ADDITIONAL INFORMATION
Regulatory Authority
A National Pensions Regulatory Authority is to be established to regulate both public and private pension schemes in the country.
Pensions Authority will regulate, supervise and monitor both public and private pension schemes in the country. It will formulate, direct and oversee the overall policy on pension matters in Ghana.

Tax Exemption
Pension benefits shall continue to be tax exempt under the new pension system. The total payroll tax exemptions for contributions into all the pension schemes under the three-tier pension structure should not exceed 35%.

FACT SHEET 4 TRANSITIONAL ARRANGEMENTS - CAP 30 AND SSNIT
PART I: THE CAP 30 SCHEME
CAP 30 is not sustainable and will be phased out.

Phasing Out CAP 30

- With the coming into effect of the new pension system, no new entrants would be allowed to join CAP 30, except those presently allowed under the 1992 Constitution of Ghana.
- The Controller and Accountant-General's Department (CAGD) will continues to pay gratuities and lump-sums to whatever is left of pensionable officers in the public sector who were employed before 1st January 1972 and public servants who joined the CAP 30 Scheme thereafter.
- Public sector pensioners under CAP 30 will also continue to receive their benefits.
- An option for public servants presently under CAP 30, to decide whether or not to move onto the new structure within a given time frame.

Surviving Spouses' Benefits
Payment of surviving spouse benefits to be based on the income of the deceased spouse

Accurate and Reliable Data
Headcount of both active and retired employees under Cap 30.

Decentralization
To decentralize public sector pension management and a restructured administrative system for CAP 30, while it lasts.

PART II - THE SSNIT SCHEME Restructuring of SSNIT
SSNIT to undergo restructuring - an overhaul of the governance, management and administrative structures.

Review of SSNIT Law
SSNIT to be controlled by a Board of Trustees instead of a Board of Directors.

Cut-Off Age
All workers currently on the SSNIT Scheme and below 55 years will automatically join the new scheme. Workers aged 55 years and above would be exempted from the new scheme but the Implementation Committee will further review and make appropriate recommendations on their benefits.

The Pension Reform Implementation Committee
The Government has already appointed an Implementation Committee to see to the speedy implementation of the accepted recommendations.

The Committee will undertake, inter alia, the following activities:

- Facilitate the drafting of a new pension reform bill that will give legal backing

to all the recommendations requiring the passage of laws.
- Provide guidance and direction on transitional matters, in both the public and private sectors that need to be resolved to ensure the smooth take-off of the new pension scheme. This will include restructuring of Social Security and National Insurance Trust (SSNIT) and a review of the SSNIT Law.
- Establish the administrative structures of a Pensions Regulatory Body which will prepare the Legislative Instrument for the operation of the new Pension Reform Law.
- The pension supervisory framework will aim at protecting member's interest and safeguarding the stability of the pension system.
- Provide information and education program on the new Pension Reform Law.

It is anticipated that a new Pension Reform Bill will be ready and passed into law before the end of 2007.

Informal Sector
The Government has also tasked the Implementation Committee to undertake a comprehensive study to facilitate the setting-up of social insurance scheme(s) for the Informal Sector.

The Aged
The Government is positively considering a national policy for the aged, which among others, will provide certain social benefits - free or substantially subsidized transportation cost, free medical treatment, reduced tickets to public and social events for all senior citizens.

Conclusion
Pension Reforms are happening all over the world and Ghana is not an exception. The Committee would therefore like to urge corporate Ghana and indeed all Ghanaians to brace themselves to meet any challenges and capitalise on opportunities that these reforms will present.

Membership of the Commission
The membership of the Commission was as follows: - Mr. Thomas Ango Bediako Education and Labour Consultant and former General Secretary of the Ghana National Association of Teachers (GNAT) Chief Musa Badimsugru Adam Management Consultant and former Managing Director, Electricity Company of Ghana (ECG) Ms. Josephine Jennifer Amoah Commissioner of Insurance,

National Insurance Commission (NIC) Mrs. Irene Monica Agyeiwa Wontumi Management Consultant, Career Counseling Consultant and former Principal Secretary Mr. Daniel Aidoo Mensah Managing Consultant & CEO, Tri-Star Consulting Actuaries and former CEO, Metropolitan Insurance Company Mr. Austin Akufo Gamey CEO, Gamey & Gamey Academy of Mediation and former Deputy Minister for Employment and Social Welfare Capt. Joel Kwami Sowu (Rtd.) Mr. Andrew Kwabena Asamoah Consultant, Internet Ghana Limited UN Consultant & Business Executive; Former WHO Human Resource Director and Representative to the United Nations Joint Pension Fund Mr. Martin Eson-Benjamm CEO, EMPRETEC Ghana Foundation and former Managing Director and Chairman, Ghana Breweries Limited

Terms of Reference
The overall objective of the Commission was to come up with recommendations for a pension scheme(s) that would ensure retirement income security for Ghanaian workers, with special reference to the public sector.

The Terms of Reference (TOR) of the Commission were: —

1. To examine the Social Security and National Insurance Trust (SSNIT) Pension Scheme, the CAP 30 Pension Scheme and any other retirement schemes both in the private and public sectors and identifydifferences;
2. To examine and determine the sustainability of existing pension schemes in the public sector;
3. To examine pension schemes of other developing countries of comparable economy and advise as it considers appropriate;
4. To advise on the type or types of pension scheme(s)that should be operated in the country, particularly in the public sector, having regard to its sustainability and the assurance of retirement income security for the Ghanaian worker, with special reference to the public sector;
5. To indicate the method of administration of recommended pension schemes;
6. To advise on the component remuneration for determining pension benefits;
7. To examine the issue of retirement age of Ghanaians having regard to global standards;
8. To examine any other matter which appears to the Commission to be incidental to or reasonably relevant to the subject of pensions;
9. To make appropriate recommendations on its findings and submit an Interim Report to the President, giving reasons for the recommendations, not later than 30th November, 2004.

The Work of the Commission
The Commission presented a Progress Report in November 2004, an Interim Report in June, 2005 and the Final Report in March, 2006 to the President.

Ensuring Retirement Income Security For The Ghanaian Worker The Way Forward
Government shares the view of the Commission that to ensure retirement income security for all Ghanaian workers, the ultimate goal is the creation of a unified pension structure. Government also shares the view that to avoid the inherent inequities in the existing parallel public sector pension schemes, there is the need for the creation of a unified pension structure for the public sector.

The CAP 30 Scheme
Government shares the Commission's view that CAP 30 is not sustainable because it is not funded and does not follow normal actuarial principles. This is further confirmed by cost pressures on the Consolidated Fund.

The SSNIT Scheme
Government shares the view of the Commission that the SSNIT Scheme has the inherent capacity to remain viable and sustainable provided the following chart lenges are confronted and resolved:—

1. high administrative costs
2. high staff numbers
3. poor return on investments
4. the relative low number of contributors given the size of the working population.

The Ghana Armed Forces Pension Scheme
The Government endorses the Commission's view that the Ghana Armed Forces Pension Scheme should be maintained.
Ghana Universities Staff Superannuation Scheme (GUSSS).The Government accepts the recommendation of the Commission .

GUSSS Scheme should undergo a review.
The Government shares the view of the Commission that the current levels of benefits under the existing pension schemes do not adequately provide for the social and economic needs of the retiree.

To improve benefits and ensure retirement income security for Ghanaian workers, Government accepts the Commission's recommendation for a contributory three-tier pension structure, comprising two mandatory schemes and a voluntary scheme, as follows:

First Tier
A mandatory Basic State Social Security scheme to be administered by a restructured SSNIT, which will pay only periodic monthly and other pension benefits (such as survivors and invalidity benefits). White Paper on the Report of the Presidential Commission on Pensions

1. It will be a defined benefit scheme, benefiting from a portion of contributions paid to SSNIT by both the employee (5%) and the employer (12.5%).
2. Under the new Scheme, SSNIT will no longer pay the 25% gratuity lumpsum.

Second Tier

- A mandatory, privately-managed occupational pension scheme.
- It will be a defined contribution pension scheme, paying mainly lump-sum benefits with a flexibility that allows the contributor to purchase additional annuities to enhance monthly pension benefits.
- The legislated contribution should be 5%.
- Out of the legislated contribution, 4% will be hived off SSNIT, while the remaining 1 % will be contributed by the employer and the employee in equal proportions.

Third Tier
A voluntary, private pension scheme, to be operated in line with the provisions of the Long-Term Savings Act (LTSA), 2004 (Act 679) which, inter alia, offers attrac¬tive tax incentives. For example, existing Provident Funds and similar schemes which may want to take advantage of the third-tier would have to modify their rules to comply with the provisions of the LTSA.

Transition to New Pension System
Phasing Out CAP 30
The Government accepts the recommendation of the Commission that with the coming into effect of the new pension system, no new entrants would be allowed to join CAP 30, except those presently allowed under the 1992 Constitution of Ghana.

The Government accepts the Commission's recommendation that the Controller and Accountant-General's Department (CAGD) continues to pay gratuities and lump-sums to whatever is left of pensionable officers in the public sector who were employed before 1 st January, 1972 and public servants who joined the CAP 30 Scheme thereafter. Public sector pensioners under CAP 30 will also continue to receive their benefits under the Scheme.

The Government also accepts the recommendation of the Commission for an option to be given to public servants presently under CAP 30, to decide whether or not to move onto the new structure within a given time frame.

Government agrees with the Commission that as part of the longterm recommendation to phase out CAP 30 and to have a unified pension structure, the proposed Pension Regulatory Authority should, within five years after coming into effect of the new pension structure, achieve unification of all pension schemes in the country.

Surviving Spouses' Benefits
The Government accepts the recommendation of the Commission that payment of surviving spouse benefits must be based on the income of the deceased spouse and accordingly direct the CAGD to initiate action for its implementation.

Pension Fund and Department of Pensions for CAP 30
The Government notes for further review, the Commission's recommendation for the setting up of a Department for Pensions and a Pension Fund for CAP 30.

Compilation of Administrative and Judicial Rulings
The Government accepts the recommendation of the Commission that the existing provisions of CAP 30 as well as the Administrative Instructions and Judicial Rulings should be updated and compiled into a comprehensive document to support the administration of the Scheme.

Pension Increase Policy
Government accepts the Commission's view that any pension increase policy must protect the real incomes of pensioners, preserve equity and ensure the Scheme remains sustainable. In this connection, the existing Administrative Instructions on pension increase policy should be reviewed.

Accurate and Reliable Data
The Government notes the concern of the Commission with regard to the lack of accurate and reliable data from the CAGD and other official sources. Government also notes the Auditor-General's observations on the operational shortcomings and the problems affecting contributions under CAP 30 documented in his preliminary report to the Commission.

The Government accepts the recommendation that a headcount of both active and retired employees should be undertaken in conformity with the recommendations in the Report of the Public Sector Advisory Group.

Decentralization
The Government accepts the recommendation of the Commission to decentralize public sector pension management and a restructured administrative system for both public sector pensions, in particular CAP 30, while it lasts. This will ensure that the appropnate professional management capacity is built in the regional and district capitals and within Ministries, Departments and Agencies (MDAs) to facilitate pension management and administration.

Restructuring of SSNIT
The Government accepts the recommendation of the Commission that SSNIT should undergo an extensive and far-reaching restructuring exercise, which should involve an overhaul of the governance management and administrative structures. The restructuring programme must involve the participation of Government and all stakeholders.

SSNIT Law
The Government accepts the recommendation of the Commission for a thorough review of the SSNIT Law.

Board of Trustees
The Government supports the view of the Commission that as a pension scheme, SSNIT should be controlled by a Board of Trustees instead of a Board of Directors.

Cut-Off Age
The Government endorses the Commission's recommendation that with the coming into effect of the new scheme, all workers currently on the SSNIT Scheme and below 55 years, should automatically join the new scheme.

The Government also notes the proposal to exempt workers aged 55 years and above from the new scheme but requests the proposed Project Implementation Committee to further review and make appropriate recommendations in this regard.

Retirement Age
The Government shares the Commission's view that the current normal retirement age should not be changed at this time. It would however be necessary to revisit the issue of the normal retirement age every ten years given the continuing improvement in life expectancy and other socio-economic developments. This should be the responsibility of the proposed Pensions Regulatory Authority.
Pensions Regulatory Authority

The Government accepts the Commission's recommendation for the establishment of a National Pensions Authority to regulate both public and private pension schemes in the country.

Project Implementation Committee
The Government accepts the recommendation of the Commission to establish a Project Implementation Committee to be responsible for implementing the accepted recommendations. The Committee will also assist in drawing up appro¬priate legal instruments for setting up regulations for the management and adminis¬tration of the proposed Second Tier system and supervise the proposed restructuring of SSNTT.

The Government also accepts the recommendation of the Commission that a maximum of two years should be allowed for a smooth transition of the existing pension systems to the new three-tier pension structure.

Other Relevant Issues
Tax Exemptions
Pension benefits shall continue to be tax exempt under the new pension system. The total payroll tax exemptions for contributions into all the pension schemes under the three-tier pension structure should not exceed 35%.

Long-Term Savings Act
The Government accepts the Commission's recommendation to strengthen the Long-Term Savings Act, 2004 (Act 679), to ensure that it addresses some of the administrative requirements of the proposed three-tier pension structure.

Pension Coverage for the Informal Sector
The Government recognises the importance of establishing a suitable pension scheme for the informal sector and accepts the Commission's recommendation that a comprehensive Study should be undertaken to facilitate the setting-up of a social insurance scheme(s) for this sector.

Allowances for Non-Pensionable Officers GO 400
The Government accepts the recommendation of the Commission for a humanitarian review of the quantum of the allowances paid to some public sector retirees who draw monthly allowances under the General Orders 400 (GO 400), based on a specific annual increase policy.

National Policy for the Aged
Government shares the view of the Commission that the State should consider providing certain social benefits free or substantially subsidized transportation cost, free medical treatment, reduced tickets to public and social events for all senior citizens.

Conclusion
Government is grateful to the Chairman and Members of the Commission for the good work done and to the stakeholders and the general public for their active participation and co-operation in this consultative process.